

Housing in the Time of Corona

Last month, the National Bureau of Economic Research's Business Cycle Dating Committee determined that a peak in monthly activity occurred in the U.S. economy in February 2020, officially labeling the current downturn as a recession. A new innovative measure referred to as the Sahn Recession Indicator also indicates that the United States is in a recession – defined as when the three-month moving average of the national unemployment rate rises by 0.5 percentage points or more relative to its low during the previous 12 months.

For some, this may bring back memories of the most recent economic downturn, beginning in December 2007 and lasting through mid-2009. The plummet of the housing market was partly to blame for the Great Recession, due to a combination of rapidly increasing home prices, loose lending practices, an increase in subprime mortgages, and household debt leveraged by inflated housing values. What resulted in the following years in Hampton Roads was a decrease in home prices and units sold, an increase in foreclosures, and a slow down in the region's real estate market.

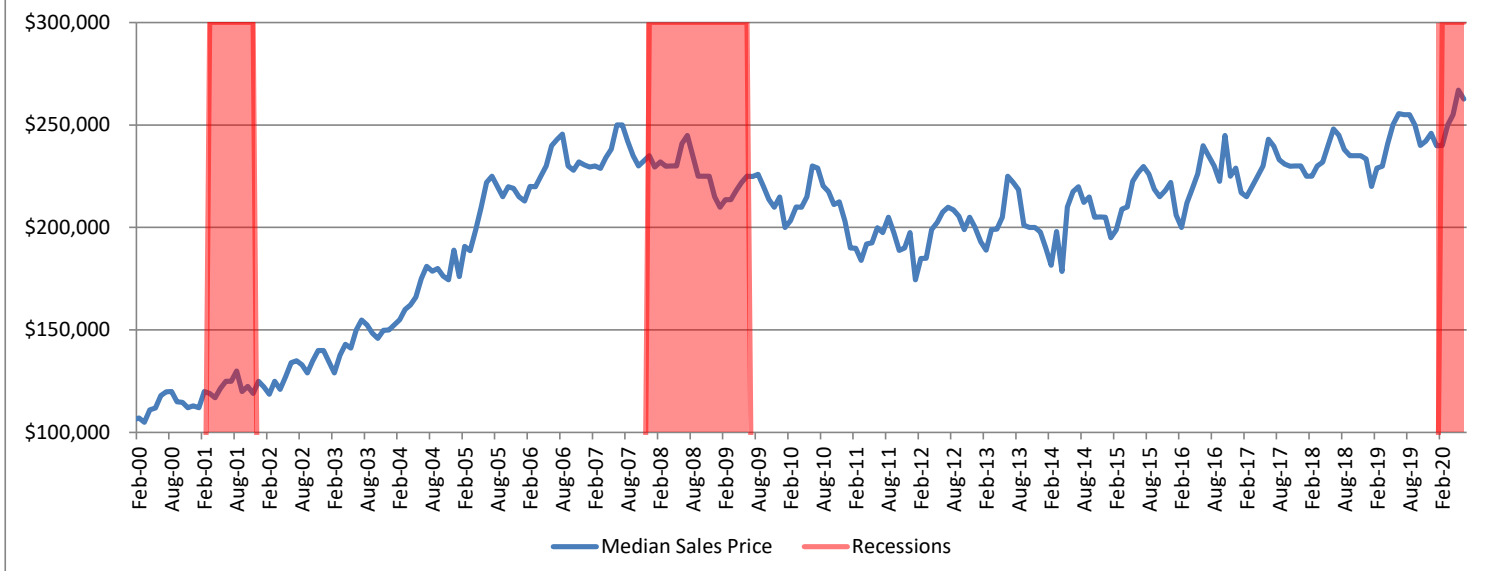
The housing market is a long-term economic indicator, so HRPDC staff plans to follow up in depth on this topic later in the year when more complete data is available. But it has been over six months since the novel coronavirus began spreading in the U.S., and since the Pandemic Unemployment Assistance program under the CARES Act expired at the end of July and over 16 million Americans still unemployed, the housing market has been a growing topic of discussion in the media. What's happening in Hampton Roads – and what metrics should we keep a close eye on?

According to data from the Real Estate Investment Network (REIN), median sales prices and total sales of residential units in Hampton Roads have been steadily climbing since late 2013 as the region recovered from the Great Recession (see figure below). At the same time, the average time homes are on the market before they are sold has been steadily decreasing, hitting a 10-year low in May 2020. Also in May, the median sales price for residential units in the region hit a 20-year high, in the middle of a global pandemic and while the unemployment rate in Hampton Roads was over 10%. These trends are consistent with the rest of the U.S., as chief product officer at ATTOM Data Solution states "The housing market across the United States pulled something of a high-wire act in the second quarter, surging forward despite the encroaching economic headwinds resulting from the Coronavirus pandemic. Profit margins hit new records as prices kept climbing, with few indications that the impact of the virus would topple the market." Summer months in Hampton Roads are usually when prices and sales are highest, and this summer is no exception.

On July 25, the federal moratorium on evictions expired, and on July 31, the extra \$600 per week unemployed persons can collect through unemployment insurance expires as well. The statewide moratorium on evictions for the Commonwealth has expired, and as Virginia courts have begun holding eviction hearings, it's possible an eviction crisis may soon set in. Recent local eviction data is hard to come by, but according to the Virginia Mercury, 1,796 tenants across the state lost their eviction cases in court in the 4 weeks from June 29 through July 28, and nearly 10,000 hearings are scheduled in the next eight weeks. According to Apartment List, an online rental platform, almost one-third of U.S. households have not made their full housing payment for July. Renters, who are more likely to work in industries affected by COVID-19, are especially vulnerable – about 36% of renters in the U.S. missed their July housing payments. While Governor Northam announced the Virginia Rental and Mortgage Relief Program, a \$50 million program funded by the CARES Act designed to support and ensure housing stability across the Commonwealth during the pandemic, it is likely nowhere near enough to help everyone at risk of losing their homes. At the end of July, the Governor requested the evictions ban be reinstated through September 7.

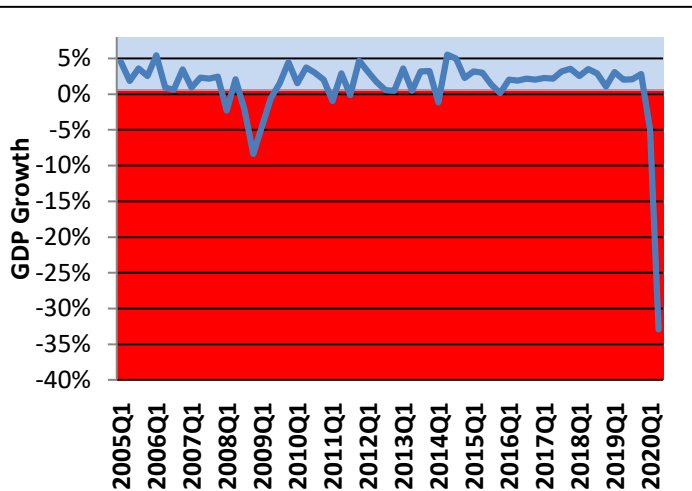
As the pandemic continues to change telecommuting practices, home sales and prices in Hampton Roads may continue to increase. With the rise of telework options, office workers may retreat from crowded cities to suburban areas with a higher perceived quality of life. With the disappearance of a commute, traffic may no longer become a consideration when choosing where to live. As the pandemic may currently point to good news for the buyer and sellers' market for secure workers, persistently high unemployment rates will inevitably impact the region's real estate market.

Median Sales Prices - Sold (Residential)



GDP, Annualized Growth Rate

United States, 2005Q1 – 2020Q2, Quarterly

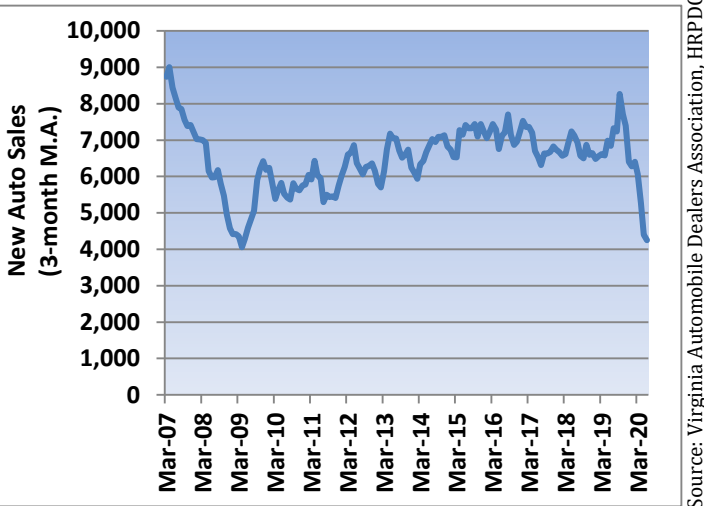


Source: Bureau of Economic Analysis, HRPDC

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP decreased 32.9% in Q2 2020, reflecting the impact COVID-19 had on the national economy during the widespread business shutdowns in April and May. As depicted above, this unprecedented contraction is the largest decrease on record. As the virus continues to spread, businesses in some states and regions are beginning to close again, reducing the potential for a quick, V-shaped economic recovery.

New Car Sales, Seasonally Adjusted

Hampton Roads, Mar 2007 – June 2020, Monthly

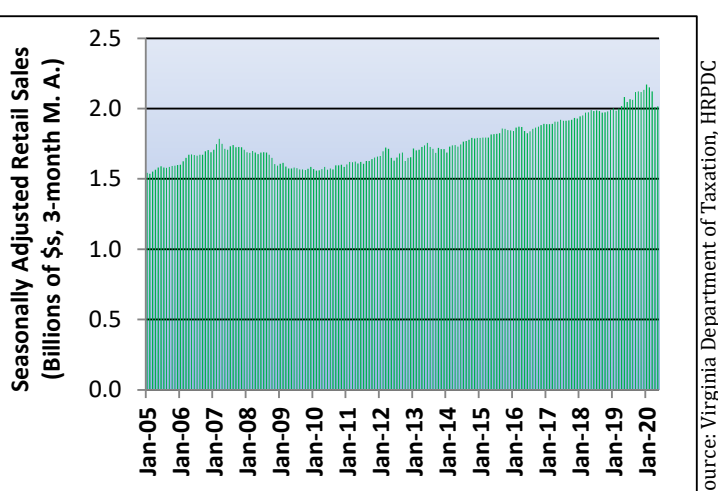


Source: Virginia Automobile Dealers Association, HRPDC

New Car Sales: Car sales, as a durable good, may be put off until an individual's economic prospects improve; thus, the number of new car sales indicates the level of confidence that households in Hampton Roads have in their financial future. Car sales this June showed improvements compared to the previous month, but year over year growth remained negative, 23% lower than June 2019, moving the 3-month average to levels that haven't been seen since the Great Recession in 2008 and 2009.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– May 2020, Monthly

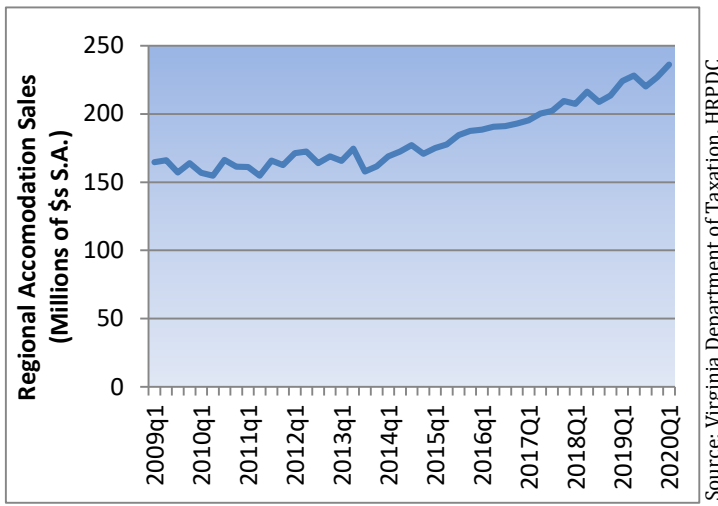


Source: Virginia Department of Taxation, HRPDC

Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Retail sales for May increased 7.7% from the previous month, but decreased by 2.6% from May 2019. It is important to note that the large majority of online sales are included in the sales tax figures. The month over month increase reflects the reopening of retail establishments in Hampton Roads in May, but figures may remain below 2019's for several reasons: decreased consumer confidence, reduced tourist activity, and reduced capacity allowed in stores.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2020Q1, Quarterly

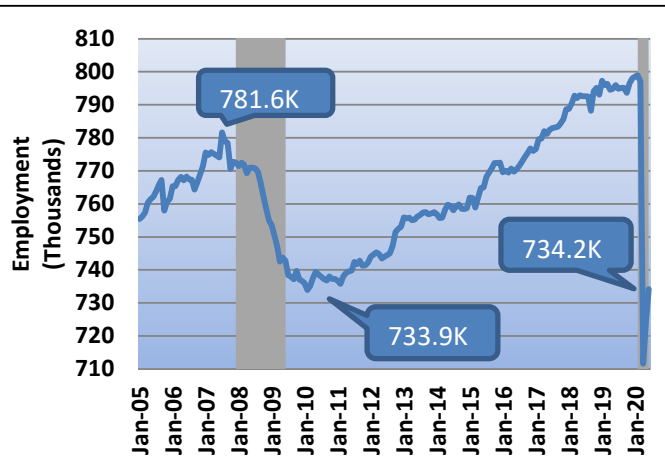


Source: Virginia Department of Taxation, HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q1 2020 hotel revenue saw a nearly 4% increase from the previous quarter, and a 5.4% increase from Q1 of the previous year. As COVID-19 caused events to be canceled, and beaches and restaurants closed, data from Smith Travel Research reported revenue per available room (RevPAR) and occupancy rates in Hampton Roads at historic lows. Q1 data however, was strong. Most of the shutdown occurred in Q2, which is sure to be reflected in the coming months.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – June 2020, Monthly

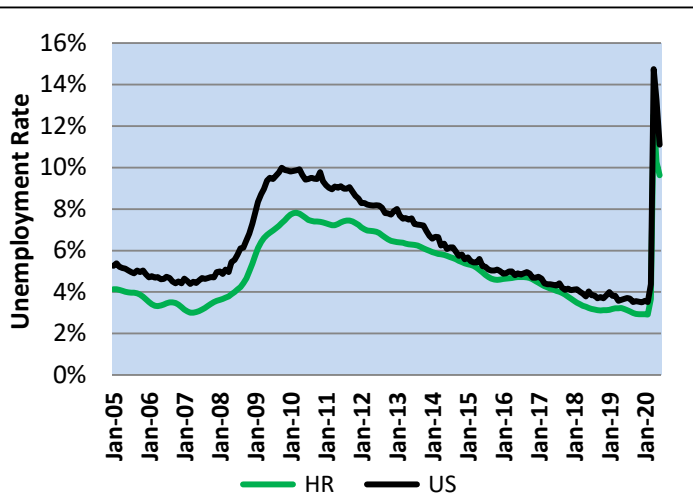


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment increased slightly from May to June 2020. This data represents a 1.37% increase from the previous month, but remains 7.6% below the previous year, still nearly twice the year-over-year decreases in the summer of 2009. Employment levels are hovering around the recent lows of the Great Recession.

Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – June 2020, Monthly

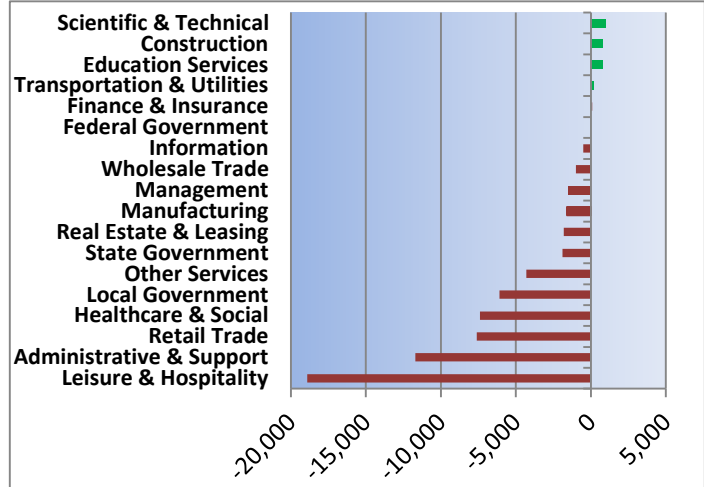


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate continued to slowly decrease from 12.55% in April to 10.27% in May to 9.63% in June, while the national unemployment rate dropped slightly from 13.26% in May to 11.1% in June as the country continued to reopen. Hampton Roads' unemployment rate continues to remain below that of the national average, signaling that our region may experience a quicker recovery, as long as it controls the spread of the coronavirus.

Employment Growth by Industry

Hampton Roads, Jun-19 to Jun-20, Year-over-Year

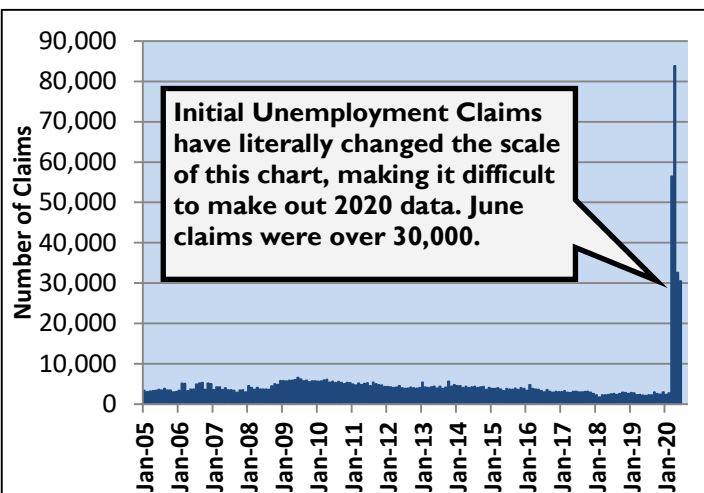


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. In June, almost every Hampton Roads industry experienced a decrease in year-over-year employment. Most significant was Leisure & Hospitality, which continued to show an especially large decrease of over 15,000 employees as hotels and restaurants around the region remain either closed or are seeing fewer guests. Administrative & Support positions lost over 10,000 jobs, while Retail Trade and Healthcare lost roughly 7,500 jobs each in June.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – June 2020, Monthly

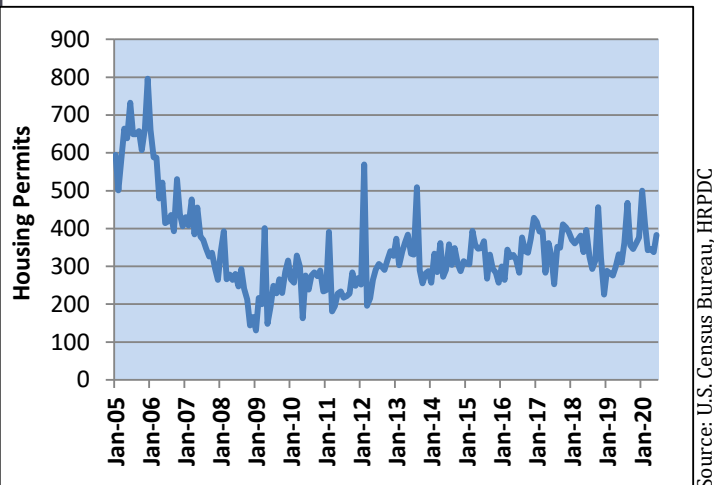


Source: Virginia Department of Labor, HRPDC

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. Seasonal adjusted unemployment claims in June 2020 were over 30,000, down very slightly from the previous month, but still an unprecedented number. This monthly increase represents an increase of over 1,300% from the previous year.

Single Family Housing Permits, Seasonally Adjusted

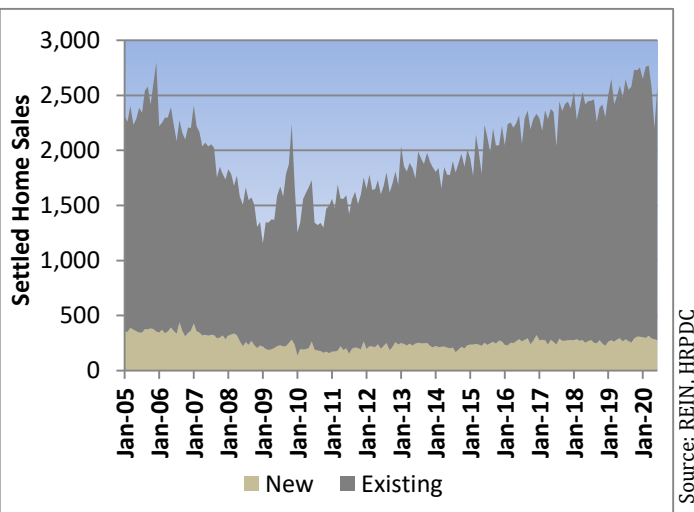
Hampton Roads, Jan 2005 – June 2020, Monthly



Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. The level of new construction permitting for single family homes in June 2020 increased to 451. When seasonally adjusted, the data shows an increase over June 2019, and is only slightly behind June 2018. As the market continues to respond to COVID-19, this indicator will be watched closely.

Number of Homes Sold, Seasonally Adjusted

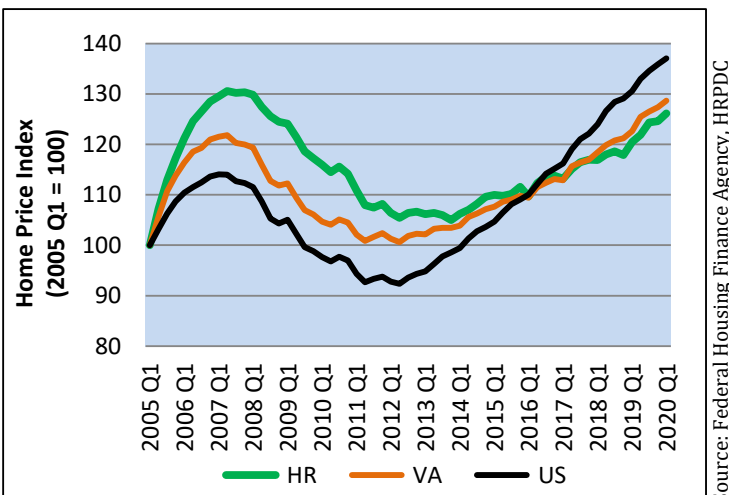
Hampton Roads, Jan 2005 – Jun 2020, Monthly



Home Sales: Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. The levels of existing home sales in June were very strong, slightly above the previous year, and total settled sales rose again after a lower than usual May. New construction sales in June were down from recent highs but elevated over June 2019, and continue to represent roughly 11% of all sales.

Home Price Index, All Transactions

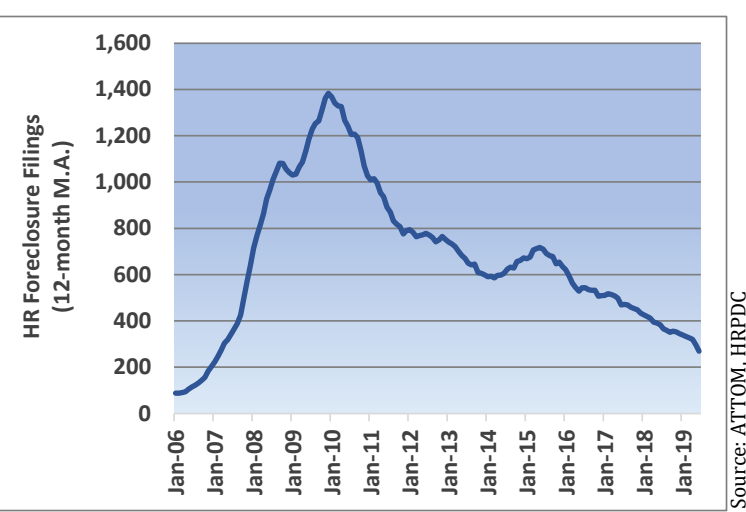
Hampton Roads, 2005Q1 – 2020Q1 Quarterly



Home Price Index: The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' home prices increased, yet again, by 4.7% over the previous year in Q1 2020, but at a slower pace than both the state and the nation. Regional housing values remain 3.3% below those seen during the peak of the housing boom.

Foreclosure Filings

Hampton Roads, Jan 2005 – Jun 2020 Monthly



Foreclosures: Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. Zillow recently stopped providing data on distressed sales as a percentage of total sales in the region, so HRPDC has shifted to reporting on total monthly foreclosure filings in Hampton Roads. Total foreclosures continue to trend downwards as the market continues to recover from the burst of the housing bubble and subsequent Great Recession, but as our nation enters a potential new housing crisis, this will be an important indicator to follow.